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October 24, 2002

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, Massachusetts 02110

Re: Fitchburg Gas and Electric Light Company, D.T.E. 02-25, Reply Letter of
NSTAR Electric

Dear Secretary Cottrell:

Boston Edison Company ("Boston Edison"), Cambridge Electric Light Company ("Cambridge") and Commonwealth Electric Company ("Commonwealth") (collectively, "NSTAR Electric") file this reply letter to respond to the reply brief of the Division of Energy Resources ("DOER") on the issue of the ratemaking treatment of certain costs relating to the provision of Standard Offer Service and Default Service.¹ Because NSTAR Electric's Initial Brief addresses most of the issues raised by DOER in its reply brief, NSTAR Electric will not respond to each argument. Silence on any matter, however, should not be construed as acquiescence.

In its Initial Brief, NSTAR Electric argued that costs relating to generation services procured by distribution companies on behalf of their retail customers be included in Default Service and Standard Offer Service rates only if the costs are incremental, identifiable and avoidable. NSTAR Electric described these criteria as follows:

This means that costs to be recovered in rates for generation services: (1) must be directly caused by the distribution company's obligation to provide that service; (2) must be in addition to those costs that would otherwise be incurred by the distribution company; and (3) must be directly avoided (on a unit basis) when a customer moves to a competitive generation supplier.

NSTAR Electric Initial Brief at 4. Although DOER "generally agrees with NSTAR that

¹ NSTAR Electric has contacted each of the parties in this proceeding and can report that none objects to NSTAR Electric filing this reply letter. NSTAR Electric believes that consideration of the costs to be recovered in rates for Standard Offer Service and Default Service is an important policy issue that transcends any single company, and appreciates that the parties recognize that the Department will benefit from a full and fair airing of views.

costs should demonstrate these attributes to be allocated to their respective functions for recovery in the appropriate bill component” (DOER Reply Brief at 7), DOER also states that it believes that if a cost is exclusive to the generation function, then policy considerations would preempt meeting NSTAR Electric’s proposed standard (*id.*). In addition, DOER takes issue with NSTAR Electric’s assertion that costs associated with certain functions mentioned in NSTAR Electric’s Initial Brief (*e.g.*, customer service, billing) are not incremental, identifiable and avoidable (*id.* at 7-8). Finally, DOER agrees with NSTAR Electric that, if unavoidable costs are included in a generation component of the bill, a reconciliation mechanism would need to be established to account for unrecovered costs (*id.* at 10).

Despite that fact that DOER states that it “generally agrees” with NSTAR Electric’s criteria for evaluating whether costs should be included in generation rates, it appears that DOER’s “exception” swallows the rule. Indeed, DOER states that, as long as a cost can be “related to the provision of the transitional energy service” (*id.* at 8), policy considerations would “preempt” the rule and the costs would be included in generation rates. It would therefore appear that DOER accepts only the first of the three criteria described by NSTAR Electric.

For example, DOER insists that customer-service and billing costs meet the criteria, although neither is incremental with generation services nor avoidable if a customer migrates to a competitive supplier (*id.* at 7-8). DOER cites to no evidence on the record in support of its contention (*id.*). Compare NSTAR Electric Initial Brief at 4-5, citing undisputed record evidence to the contrary (Tr. 7, at 848-849, 853-856, 868, 873). Moreover, even where DOER concedes that costs are unavoidable (*e.g.*, procurement and associated legal and regulatory costs), “policy considerations should preempt” the application of the standard (DOER Reply Brief at 8-9). Again, DOER would render the standard a practical nullity.²

Finally, NSTAR Electric appreciates the fact that DOER agrees that the inclusion in generation rates of unavoidable costs would necessitate the implementation of a timely reconciliation mechanism that would apply to all customers (*e.g.*, the default service adjustment factor) (*id.* at 10). Although NSTAR Electric believes that unavoidable costs should not be included in generation rates, if the Department were to rule otherwise, a

² It should also be noted that DOER agrees that the costs involved are “minimal” (*id.* at 9), which conflicts with the notion that policy considerations should supercede sound ratemaking principles, since the *de minimus* impact on the rates for generation service will not have a material impact on retail competition. NSTAR Electric also takes issue with DOER’s assertion that not all customers actually benefit from the existence of transitional generation services. NSTAR Electric believes that the presence of regulated, back-stop services procured by distribution companies has produced a restructuring environment in which consumers receive transitional protections against the flash-cut immersion into an untested competitive market. This orderly transition, as mandated by the Restructuring Act, has provided benefits for all consumers, regardless of their choice of generation supplier.

timely reconciliation mechanism would ensure (as acknowledged by DOER) that the costs associated with additional deferrals would be minimized.

Thank you for your attention to this matter.

Sincerely,

A handwritten signature in cursive script, appearing to read "Robert N. Werlin".

Robert N. Werlin

cc: Jeanne Voveris, Hearing Officer
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